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TAGS: [EINV](#) [ECON](#) [ETRD](#) [ENRG](#) [TBIO](#) [PREL](#) [SA](#)
SUBJECT: SAUDI INVESTMENT AUTHORITY OUTLINES AMBITIOUS
PLANS, CALLS FOR GREATER U.S. INVESTMENT

Classified By: Ambassador James B. Smith, reasons 1.4 (b and d).

11. (C) Summary: The Saudi Arabian General Investment Authority (SAGIA) has achieved remarkable results over the last five years in making Saudi Arabia a more attractive destination for foreign investment, more than doubling total investment to \$38 billion in 2008. SAGIA is trying to focus the country on attracting investments that make best use of its two primary competitive advantages, abundant hydrocarbons and a strategic location between east and west. SAGIA hopes that more targeted investment partnering will help the Kingdom create a knowledge-based economy that will create the better paying, more challenging jobs that a rapidly growing, very young population needs to improve its standard of living. SAGIA is pursuing a number of initiatives to accomplish this goal, including setting up at least four economic cities, each of which will focus on a different 'value proposition,' designed to attract both foreign investors and Saudis seeking higher paying jobs in new cities with attractive government services. SAGIA is proud of its efforts to date to make Saudi Arabia an easier place to do business, and points to its World Bank ranking for ease of doing business, which has improved from number 67 in 2005 to number 13 in 2009. Its goal is to crack the top ten easiest places to do business by the end of 2010 (ten by ten). SAGIA will focus this year on improving contract enforcement and setting up arbitration centers, addressing one of Saudi Arabia's weakest points in the World Bank rating. SAGIA is also very keen to attract greater U.S. investment. End Summary.

Investment Key to Development:

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12. (C) Amr Al-Dabbagh the President of the Saudi Arabian General Investment Authority (SAGIA) recently briefed the Ambassador on the Kingdom's ambitious plans to attract more foreign investment. Al-Dabbagh explained that rapid economic growth in Saudi Arabia continues, but population growth is roughly double the rate of GDP growth, which means living standards are declining, and Saudis are now facing unemployment. Beginning in 2000, SAGIA analyzed Saudi Arabia's development challenges, and looked at its record of attracting foreign and domestic investment. Two prominent initiatives from the 1970's and 1980's they examined were the drive for Saudization, and the efforts to promote the industrial cities of Jubail and Yanbu, which have attracted fifty percent of FDI into Saudi Arabia over the last thirty years. They also looked at the experience of other countries, including Ireland and Singapore. The way forward, in SAGIA's view, is not to pursue a strategy of Saudization, but one of job creation. SAGIA also decided that the Kingdom can no longer try to attract all kinds of investments. Instead, it would make more sense to better target investments to take advantage of the Kingdom's two main

competitive advantages of abundant hydrocarbons and strategic location between Asia and Europe. SAGIA also concluded that, to create the necessary jobs to improve standards of living, Saudi Arabia needs to attract a larger amount of FDI and domestic investment.

Three Initiatives:

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13. (SBU) In late 2004, SAGIA began its strategic plan to increase investments, defining for itself a mission of creating a pro-business environment, with world class economic cities and develop a knowledge economy. SAGIA sought to focus on the small number of actions that would have the biggest impact in terms of increasing Saudi Arabia's competitiveness. This led to the goal of becoming one of the world's ten most competitive places by 2010, as ranked by the World Bank ("ten by ten," in SAGIA parlance). This analysis led to three initiatives: institutionalizing competitiveness process; building export zones, or pockets of competitiveness that introduce the next generation of best practices; and third, build three business centers. If this initiative works, it will add \$150 billion to current GDP, and generate 1.3 million jobs while supporting 4.5 million people (roughly another Riyadh). SAGIA also hopes to increase the average salary from today's \$18,000 level to \$33,000 by 2020.

Improved Competitiveness:

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14. (C) SAGIA began the first initiative in 2005, hiring Michael Porter, the author of the Competitive Advantage of Nations. He looked at key indicators, such as how many days and how much money does it take to start a business, and helped suggest areas for improvement. As a result of these suggestions, SAGIA has cut the number of steps by 70% and the cost by 90%, and the time it takes by 80%. As an example of the improvement, the number of companies formed in Saudi Arabia in December 2007 equaled the number for the rest of the year.

15. (C) SAGIA decided against trying to fix the existing economic base in the Kingdom's three largest cities, and opted instead to start from scratch in creating four economic cities, of which the King Abdullah Economic City near Jeddah is the flagship. There are also economic cities planned in Hail, Jizan and Medina, designed to develop less prosperous regions. Each city will have a different 'value proposition' in terms of a key focus area. SAGIA aims to install best practices as it builds these cities, including adopting a new way of looking at government services, guaranteeing that citizens can receive service within 60 minutes of placing a call, 24 hours a day, 7 days a week. SAGIA hopes this will become contagious in the rest of the country. CISCO is working to install the next generation of smart city infrastructure, such as broadband, in the cities now. All buildings will be LEED certified.

16. (C) SAGIA recognizes it will be hard to get people to move, but believes that offering good, high quality jobs will help. 90% of high school grads leave their home towns today; economic cities might help reverse that internal migration trend. They are also hoping that high level of government services, such as health (set up in cooperation with the Cleveland Clinics) will help.

17. (C) Al-Dabbagh said SAGIA is looking to develop several specific sectors, such as knowledge based industries and petrochemicals. The goal is to increase Saudi Arabia's share of the global plastics petrochemical industry from 1% today to 15% in 2020. As an example, Al-Dabbagh noted China imports oil and resins today from Saudi Arabia and exports plastics to Saudi Arabia. Saudi would like to become the newest plastics hub, and has contracted Booz Allen Hamilton to come up with a strategy that will fit into the national clusters program (done in coordination with the Ministries of Commerce and Petroleum). SAGIA has also picked ten areas in mining to develop, including bauxite for aluminum, phosphates

and glass. To meet these goals, Saudi Arabia will have to invest \$120 billion by 2020 to double its electricity generation to 60 GW, in addition to \$50 billion in new water desalination capacity to meet demand. Al-Dabbagh estimated that, together, initiatives in these sectors could represent \$300 billion in investment opportunities.

Transportation:

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¶18. (SBU) SAGIA is pursuing a significant effort to develop the transport sector, expecting to make big upgrades to the system built in the 1970's and 1980's, including roads, logistics, air and sea ports, and rail. SAGIA is also looking at green field ports and rail projects, and trying to promote the logistics industry as a strategic industry for the country. SAGIA estimates there is up to \$100 billion in investment potential in these sectors.

Knowledge Based Industries:

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¶19. (C) SAGIA is also promoting the creation of knowledge-based industries, including health, life sciences, education and information and computing technology. Al-Dabbagh said SAGIA is targeting the training of highly proficient Saudis who can compete anywhere in the world, preparing them for a career, and not just a job, in which they can add value, not costs. SAGIA is looking to build smart cities from scratch to promote information technology industries (in part because they are cheaper than retrofitting existing cities), based on the model of Amsterdam. SAGIA also plans to develop opportunities in the health sector, using the economic cities as model for a patient-centric approach, based on a partnership with the Cleveland Clinic, which will set up the Kingdom's first cardiac center soon. They are also working with the Jocelyn Center and the Harvard diabetes strategy to set up 30 clinics. SAGIA estimates a total of \$100 billion investment opportunities in the health sector.

Results:

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¶10. (SBU) In 2005, Saudi Arabia was number 67 in the world, rising to 38, 23, 16, and 13 in 2009. UNCTAD estimates that FDI has also increased, from number 27 in 2006 to number 14 in 2009. Saudi Arabia was one of five countries to increase its FDI in 2009, doubling its investment from 2008. Al-Dabbagh noted this has created 340,000 new jobs, with high salaries in the \$90,000 range. Only 10% of this is in the oil and gas sector, and 15% in petrochemicals.

Judicial Reform Top Goal for 2010:

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¶11. (SBU) Over the next year, SAGIA will focus on reform of the commercial code and the judicial system. Two years ago, the Saudi Government began a major judicial reform process intended to create more effective commercial courts. SAGIA is working with the Board of Grievances and the Ministry of Justice to set up commercial courts, and with the Ministry of Commerce and Chambers of Commerce to set up amicable settlement centers. This will help Saudi Arabia address the main difference between being ranked number 13 and number 10 in the World Bank rating, which is contract enforcement. Saudi Arabia currently ranks number 147 in that measure. SAGIA also wants to increase the role of women in the workforce, as Saudi Arabia ranks last in the World Bank indicators on this score.

Entrepreneurship:

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¶12. (C) SAGIA hopes to unleash local entrepreneurs, in part by creating a training program with Babson College and creating an entrepreneurship road map under USAID's

centennial fund. SAGIA also intends to create a national entrepreneurship center by 2010. Once this center is up and running, every student will start - and liquidate - a company during a school term.

Better Use of Oil:

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¶13. (C) Saudi Arabia is also looking to reduce local electricity demand. SAGIA believes it would make more sense to reduce the domestic subsidies for oil and electricity to encourage companies to make more rational use of these resources, which reduce local demand, freeing up more oil for export. SAGIA wants to use the additional revenue to incentivize growth at home. SAGIA is looking at options to install smart grids to reduce electricity distribution loss by 50%. Connecting the east and west grids will also reduce demand and make the system more efficient. SAGIA is also looking for ways to increase the use of renewable energy, particularly solar, as well as wind on the coast. There are some start-up Saudi companies that already make panels for solar cells, and SAGIA is working on a national energy strategy for solar.

Call for More U.S. Investment:

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¶14. (C) Al-Dabbagh lamented that the U.S. is no longer the largest source of foreign direct investment, and said SAGIA would like to increase the U.S. share, both of FDI into Saudi, and of Saudi FDI into the U.S. In order to increase Saudi Arabia's profile, SAGIA plans to open 12 offices in the U.S. Al-Dabbagh noted, by reference, that Singapore has 30). SAGIA is also trying to develop strategic alliances with key law firms and consultants to attract the right kind of firms to invest in Saudi Arabia. Part of the problem, according to Al-Dabbagh is that Saudi Arabia needs a clearer vision for its investment strategy. Al-Dabbagh believes it makes more sense for Saudi Arabia not to pursue companies looking for a cheap place to outsource production from the U.S. Rather, it makes more sense to pursue companies looking for long-term strategic partners in key areas, which are more likely to make better use of Saudi Arabia's competitive advantages.

Comment:

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¶15. (C) There are no better exponents of the King's vision of the need to develop a knowledge-based economy quickly than Amr Al-Dabbagh and his young, energetic SAGIA team. They have achieved impressive results in terms of addressing a number of procedural problems that has made it easier for foreign and domestic companies to set up shop in Saudi Arabia. We believe they have also identified some important factors for the government to consider if the country is to achieve the King's development vision. Unfortunately, SAGIA's vision is not the only vision in the Saudi Government. While there is significant overlap between SAGIA's program and the Ministry of Commerce's National Industrial Strategy, and the Stairway to Knowledge strategy of the King Abdulaziz Center for Science and Technology, there are important areas of difference. It is also not clear that other ministries, let alone private companies, are sold on the concept of the economic cities. SAGIA is also not always the most effective proponent of foreign investor interests when regulatory or licensing questions arise with other ministries. All that said, we will continue to work closely with SAGIA to help it realize its vision of making Saudi Arabia a more welcoming place for investors and a champion of reform.